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SUBJECT: Government Policies and Argentine Agriculture -- Lower Prices, but Not Production

¶1. (SBU) SUMMARY: Government policies in Argentina have reduced prices paid for goods from the most important agricultural sectors (oilseeds, grains, beef and dairy) an estimated 30 to 40 percent below world market prices. The lower prices are due to GoA intervention in the market to keep down domestic food prices and to collect taxes on exported products. Nevertheless, production continues to remain stable for most products, and is even increasing for soybeans, due to extremely high world prices and the undervalued Argentine peso. Government intervention is accelerating the long-term shift of livestock production from the traditional producing areas to less fertile northern regions, as former pastures are being converted to cropland. END SUMMARY

Intervention - Lower Prices, More Revenue

¶2. (SBU) The Argentine Government has intervened heavily in agricultural markets to collect revenues from export taxes and reduce domestic food prices. Overall, prices paid to local producers are an estimated 30 to 40 percent below international prices for oilseeds, grains, beef and dairy due to these measures. The impact on production has been relatively limited, however, as very high international prices and the undervalued peso have ensured continued profitability for most agricultural sectors. Production of soybeans has continued to increase, while dairy, beef and grain production have remained flat.

¶3. (SBU) Export taxes are the main measure used to collect revenues, with soybeans currently subject to the highest tax of 35 percent, followed by wheat (28 percent), corn (25 percent), and beef (15 percent). Other measures directly targeted at keeping down domestic prices include suspensions of corn and wheat export registrations; price controls on some retail beef and dairy products; an export quota for beef of around 40,000 tons per month; and a maximum export price for milk powder of US$2,770 per ton (the government collects any excess above this amount).

¶4. (SBU) These measures are in large part a response to high world prices and (initially) the devaluation of the peso in 2002, as the government sought to collect some of the additional revenues going to agricultural producers and to keep down domestic food prices. The greatest negative impact of these policies has been on the beef sector, where world prices have not increased as much in relation to oilseeds, grains or dairy.

Beef: Times are Changing

¶5. (SBU) The Argentine cattle/beef sector is going through a significant transformation as competition from highly profitable

crop production and cattle and beef price restrictions have tended to displace cattle production from traditional areas in the central provinces. This has been largely offset, however, by growth in production in the northern provinces, where large companies have made new investments to increase productivity.

¶6. (SBU) While Government measures have lowered domestic soybean and beef prices by roughly the same amount, the difference in profitability of oilseeds compared to beef has widened. In December 2001, the gross profit margin for soybeans was US$244 per hectare, and fattening cattle was US$45 per hectare, a difference of US$199 per hectare in favor of soybeans. In December 2007, soybean returns grew to US$509 per hectare, while beef production grew to US$85 per hectare, with a difference in profitability of US$424 per hectare.

¶7. (SBU) Cattle production is moving away from its traditional region, the fertile pampas (province of Buenos Aires, center and south of Cordoba, Santa Fe and Entre Rios provinces), to the northern provinces such as Santiago del Estero, Salta, Formosa and others. There is also a moderate expansion in the west-central provinces. The environment is harsher in these provinces, but they are expanding rapidly with strong investment, especially in higher producing pastures.

¶8. (SBU) In the traditional cattle area, most pastures are now in crop production, particularly soybeans. Cow-calf herds are located in areas of the farms where crops cannot be planted. The number of cattle in feedlots has increased, accounting for approximately 30 percent of the country's total current slaughter. Most analysts indicate that grain-fed beef will continue to increase as production moves away from traditional areas.

¶9. (SBU) COMMENT: While current Government policies have generally not reduced agricultural production, the sustainability of these policies over the long run is open to question. Rising inflation

has eaten into the competitive advantage gained from keeping the exchange rate artificially low, with the real exchange rate (against the dollar) for the agricultural sector getting close to the levels before the crisis in 2001 and 2002. The cyclical nature of commodity prices also suggests that prices will probably come down from their current lofty levels at some point. Any drop in world prices would present a major challenge for the government (which is increasingly dependent on revenues from export taxes) and producers (who are facing ever higher production costs).

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